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NO SURFACE USE OIL AND GAS LEASE
(Paid-Up Lease)

This Oil and Gas Lease (this "Lease") is made on October 28, 2008, between **Jagdip Patel** (hereafter called "Lessor," whether one or more), whose address is **1721 Pleasant Place, Arlington, TX 76105** and **Vargas Energy**, Ltd., (hereafter called "Lessee"), whose address is **4200 S. Hulen, Suite 614, Fort Worth, Texas, 76109.**

1. Grant. In consideration of Ten Dollars and other consideration in hand paid, Lessor grants and leases exclusively unto Lessee the following described land (the "Land") in Tarrant County, Texas, for the sole purpose of exploring, drilling, and producing oil and gas, laying pipelines and building roads and tanks thereon to produce, save, treat, process, store, and transport oil and gas and other products manufactured from oil and gas produced from the Land:

SEE EXHIBIT "A" FOR LEGAL DESCRIPTION

2. Mother Hubbard Clause. This lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the land particularly described above, whether the same be in said survey or surveys or in adjacent surveys, although not included with the boundaries of the land particularly described above, including the minerals owned by Lessor located in streets, roads, alleys, easements and rights of way adjacent of Lessor's lands described above.

3. Primary Term. This Lease is for a term of three years from this date (called "Primary Term") and as long thereafter as oil or gas is produced in paying quantities from the Land or land pooled therewith or operations are being conducted on the Land or land pooled therewith as provided herein.

4. Minerals Covered. This Lease covers only oil and gas. The term "oil and gas" means oil, gas, and other liquid and gaseous hydrocarbons produced through a well bore.

5. Royalty.

(a) As royalties, Lessee agrees:

(1) To deliver free of cost to Lessor at the well(s) or to the credit of Lessor at the pipeline to which the well(s) may be connected, 25% (the "Royalty Percentage") of all oil and other liquid hydrocarbons produced and saved from the Land. At Lessor's option, which may be exercised from time to time and, which initially shall be assumed as exercised by Lessor unless Lessor notifies Lessee in writing otherwise, Lessee shall pay to Lessor the same part of the market value at the well of oil and other liquid hydrocarbons of like grade and gravity prevailing on the day the oil and other hydrocarbons are sold from the Lease in the general area in which the Land is located.

(2) To pay to Lessor:

(i) On gas produced from the Land and sold by Lessee or used off the Land and to which the following subparagraphs (ii) and (iii) do not apply, the Royalty Percentage of the market value at the well, subject to the other provisions herein.

(ii) On gas produced from the Land that is processed in a processing plant in which Lessee or an affiliate of Lessee has a direct or indirect interest, the higher of the Royalty Percentage of the market value of the gas at the inlet to the processing plant, or the Royalty Percentage of the market value of all processed liquids saved from the gas at the plant plus the Royalty Percentage of the market value of all residue gas at the outlet of the plant.

(iii) On gas produced from the Land that is processed in facilities other than a processing plant in which Lessee or an affiliate of Lessee has a direct or indirect interest, the Royalty Percentage of the market value at the plant of all processed liquids credited to the account of Lessee and attributable to the gas plus the Royalty Percentage of the market value of all residue gas at the outlet of the plant.

(b) The market value of gas will be determined at the specified location by reference to the gross heating value (measured in British thermal units) and quality of the gas. The market value used in the calculation of oil and gas royalty will never be less than the total proceeds received by Lessee in connection with the sale, use, or other disposition the oil or gas produced or sold. For purposes of this paragraph, if Lessee receives from a purchaser of oil or gas any reimbursement for all or any part of severance or production taxes, or if Lessee realizes proceeds of production after deduction for any expense of production, gathering, dehydration, separation, compression, transportation, treatment, processing, storage, or marketing, then the reimbursement or the deductions will be added to the total proceeds received by Lessee, except as set forth in (d) below.

(c) Except as permitted in (d) below, Lessor's royalty will never bear, either directly or indirectly, any part of the costs or expenses of production, separation, gathering, dehydration, compression, transportation, trucking, processing, treatment, storage, or marketing of the oil or gas produced from the Land or any part of the costs of construction, operation, or depreciation of any plant or other facilities or equipment used in the handling of oil or gas. Lessor's royalty will bear its share of all severance and production taxes.

(d) If Lessee, or an affiliate of Lessee, compresses, transports, processes, or treats gas produced from the Land, Lessor's royalty shall not bear any of the costs associated therewith. If a third party, that is not an affiliate of Lessee, compresses, transports, processes or treats gas produced from the Land, Lessor's royalty will bear its proportionate share of costs and expenses associated therewith.

(e) Lessor shall be paid the Royalty Percentage of all payments and other benefits made under any oil or gas sales contract or other arrangement, including take-or-pay payments and payments received in settlement of disputes; provided that if Lessor receives a take-or-pay payment

or similar payment for gas that has not been produced, and if the gas purchaser "makes-up" such gas and Lessee is required to give such purchaser a credit for gas previously paid for but not taken, then Lessor will only receive its Royalty Percentage of any payments made by the gas purchaser for such make-up gas taken pursuant to the take-or-pay provision or similar provision.

(f) If gas produced from the Land is sold by Lessee pursuant to an arms-length contract with a purchaser that is not an affiliate of Lessee, and for a term no longer than that which is usual and customary in the industry at the time the contract is made, then the market value of the gas sold pursuant to the contract shall be the total proceeds received by Lessee in the sale, subject to the provisions of paragraphs 4(b) and (d) above.

(g) As used in this Lease, "affiliate" means (i) a corporation, joint venture, partnership, or other entity that owns more than fifty percent of the outstanding voting interest of Lessee or in which Lessee owns more than fifty percent of the outstanding voting interest; or (ii) a corporation, joint venture, partnership, or other entity in which, together with Lessee, more than fifty percent of the outstanding voting interests of both Lessee and the other corporation, joint venture, partnership, or other entity is owned or controlled by the same persons or group of persons.

(h) Unless there is a reasonable title dispute or question as to title, Lessee must disburse or cause to be disbursed to Lessor its royalty on production from a particular well not later than one hundred twenty (120) days after the end of the month of first sales of production. Thereafter, Lessee must disburse or cause to be disbursed to Lessor its royalty on production by the last day of the second month after the month in which production is sold. If not paid when due, Lessor's royalty will bear interest at the statutory rate from due date until paid, which amount Lessee agrees to pay.

(i) Acceptance by Lessor of royalties that are past due will not act as a waiver or estoppel of its right to receive interest due thereon unless Lessor expressly so provides in writing signed by Lessor. The royalty payment obligations under this Lease shall not be affected by any division order or the provisions of Section 91.402 of the Texas Natural Resources Code or any similar statute.

(j) The receipt by Lessee from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessee acquiring legal or equitable title to Lessor's share of those proceeds, but Lessee will at all time hold Lessor's share of those proceeds for the benefit of Lessor. Notwithstanding the insolvency, bankruptcy, or other business failure of a purchaser of production from the Land or pipeline company transporting production from the Land, Lessee will remain liable for payment to Lessor for, and agrees to pay Lessor all royalties due Lessor together with interest if not timely paid.

6. Operations.

(a) If, at the expiration of the Primary Term, oil or gas is not being produced from the Land, but Lessee has commenced operations for the drilling of a well on the Land, or lands pooled therewith, the Lease will not terminate but will remain in effect for so long thereafter as operations are carried out with no cessation of more than 120 consecutive days, and if the operations result in the production of oil or gas, the Lease shall remain in force as otherwise provided herein. For the purposes of this Lease, the term "operations" means operations for any of the following: preparation

for and/or drilling, testing, completing, reworking, fracing, recompleting, deepening, plugging back, or repairing of a well in search of or in the endeavor to obtain, maintain, re-establish or enhance production of oil or gas with no cessation of more than 120 consecutive days.

(b) If after the expiration of the primary term production from any well shall cease for any cause, Lessee shall have 120 days from the cessation of production to commence, and thereafter prosecute drilling or reworking operations in a good faith attempt to restore production from the Land or lands pooled therewith with no cessation of more than 120 consecutive days, and if such operations result in production, this lease shall continue for so long as production in paying quantities continues or the lease is otherwise maintained in force.

(c) As a result of land development in the vicinity of the Land, governmental rules or ordinances regarding well sites, and/or surface restrictions as may be set forth in this Lease and/or other leases in the vicinity, surface locations for well sites in the vicinity may be limited and Lessee may encounter difficulty securing surface location(s) for drilling, reworking or other operations. Therefore, since drilling, reworking or other operations are either restricted or not allowed on the Land or other leases in the vicinity, it is agreed that any such operations conducted at a surface location off of the Land or off of lands with which Land is pooled in accordance with this Lease, provided that such operations are associated with a directional well for the purpose of drilling, reworking, producing or other operations under the Land or lands pooled therewith, shall for purposes of this Lease be deemed operations conducted on the Land. Nothing contained in this paragraph is intended to modify any surface restrictions or pooling provisions or restrictions contained in this Lease, except as expressly stated.

7. Surface Use: Except for seismic surveys and the laying of pipelines, Lessee is prohibited from using the surface of the Land for any purpose, but Lessee may engage in directional drilling activities beneath the Land that are conducted on the surface of other land. Any directional drilling must penetrate the Land sufficiently below the surface as to not interfere with the present or future use of the surface of the Land for commercial or residential use, and in no event may the directional drilling penetrate the Land less than 200 feet below the surface. A directional well drilled under this provision shall be considered to be located on the Land. Lessee may conduct seismic surveys using the surface of the land, but shall pay Lessor for any damages to Lessor's property and improvements caused by the survey.

8. Shut-in Royalty. At any time after the primary term, while there is a gas well on this Lease or on acreage pooled therewith capable of producing gas in paying quantities, but gas is not being sold, and this lease is not otherwise being maintained in full force and effect, Lessee shall pay or tender, as royalty, in advance an annual shut-in royalty of an amount equal to $10 per acre covered by this Lease. Payment with respect to a well will be due within 180 days after (a) the well is shut-in or (b) the end of the primary term, whichever is the later date. All subsequent Shut-In Royalty payments will be due on or before the anniversary date of the date of the first Shut-In Royalty payment. While shut-in royalty payments are timely and properly paid, this Lease will be deemed to be held as a producing lease. The obligation of Lessee to pay shut-in royalty is a covenant and not a condition and, if Lessee, for any reason, should fail to make a shut-in royalty payment on or before its due date, Lessor shall notify Lessee in writing of such failure and this Lease shall not terminate as a result of Lessee's failure to make a shut-in royalty payment unless Lessee fails to make such shut-

in royalty payment within 60 days from the receipt of written notice from Lessor. The payment or tender of royalty under this paragraph may be made by the check of Lessee mailed or delivered to the parties entitled thereto on or before the due date. Notwithstanding anything to the contrary contained in this lease, at the option of Lessee, which may be exercised by Lessee giving notice to Lessor, a well which has been drilled and Lessee intends to frac shall be deemed a well capable of producing in paying quantities and the date such well is shut-in shall be when the drilling operations are completed.

9. Pooling. Lessee shall have the right to pool, as to any one or more formations, the Land with other land or leases in the vicinity thereof, to form pooled units for the production of oil and gas or either of them. Units pooled for oil shall not exceed 40 acres, plus a tolerance of 10%, and units for gas shall not exceed 320 acres, plus a tolerance of 10%, provided that if a governmental authority having jurisdiction prescribes or permits a unit for the drilling or operation of a well to be larger than those specified hereunder, units created thereafter may conform substantially in size to those prescribed or permitted by the governmental authority. If the well is a Horizontal Well, as defined in the Rules of the Texas Railroad Commission, the unit may contain the additional acreage permitted by Rule 86 of the Texas Railroad Commission. The unit will become effective when Lessee files in the Real Property Records of the county where the Land is located a document describing the pooled acreage and depths for the pooled unit. Lessee will deliver a copy of the document creating the unit to Lessor, upon request. Lessee may at its election exercise its pooling option before or after commencing operations. Operations for drilling on or production of oil or gas from any part of a pooled unit that includes land covered by this Lease shall be considered as operations on or production of oil or gas from the portion of the Land included in the pooled unit. There shall be allocated to the Land included in the unit that prorated portion of the oil and gas, or either of them, gas produced from the pooled unit that the number of surface acres of the Land included in the unit bears to the total number of surface acres included in the unit. Royalties shall be computed on the portion of production allocated to the Land.

10. Force Majeure. Should Lessee be prevented by reason of Force Majeure from complying with any express or implied covenant of this Lease (other than a requirement to pay money), from conducting drilling or reworking operations on the Land, or from producing oil or gas, then while so prevented, that covenant will be suspended; Lessee will not be liable for damages for failure to comply therewith; this Lease will be extended so long as Lessee is prevented from conducting drilling or reworking operations on or from producing oil or gas from the Land; and the time while Lessee is so prevented will not be counted against Lessee. "Force Majeure" means any Act of God, any federal or state law, scarcity of drilling rigs or other equipment, inability to obtain a drilling permit, any rule or regulation of governmental authority, or other similar cause (other than financial reasons).

11. Warranties. Lessor warrants title to the Land by, through and under Lessor, but not otherwise. If Lessor owns an interest in the Land less than the fee simple estate, then the royalties payable hereunder will be reduced proportionately. All royalty interest covered by this lease, whether or not owned by Lessor, shall be paid out of the royalty herein provided. Lessor's rights and interests hereunder shall be charged with any mortgages, taxes or other liens or interests against the Land, but Lessor agrees that Lessee shall have the right at any time to pay or reduce same for Lessor, either before or after maturity, and Lessee shall be subrogated to the rights of the holder

thereof and authorized to deduct all amounts so paid from royalties or other payments which may become payable to Lessor and/or its successors and assigns under this Lease.

12. Notices. All notices will be deemed given and reports will be deemed delivered if sent by certified letter, return receipt requested, properly addressed and deposited in the United States Postal Service, postage prepaid, to Lessor and Lessee at the addresses shown above. Either party may designate a new address by proper notice to the other party.

13. Insurance. At all times while this Lease is in force, Lessee shall acquire and maintain insurance covering all of its operations on the Land, including any work performed on its behalf by contractors, subcontractors, and others. The policies shall include coverage for comprehensive general liability, for bodily injury and property damage, blowout and loss of well coverage, and coverage for any damage to the environment, including coverage for the cost of clean up and surface remediation. The coverage shall be in the minimum amount of $5,000,000.

14. Indemnity. LESSEE AGREES TO INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S REPRESENTATIVES, SUCCESSORS, AND ASSIGNS AGAINST ALL EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE FOR NUISANCE, FOR INJURY TO OR DEATH OF PERSONS, AND FOR LOSS OR DAMAGE TO PROPERTY, OR ANY OF THEM, INCLUDING, WITHOUT LIMITATION, ATTORNEY FEES, EXPERT FEES, AND COURT COSTS, CAUSED BY OR RESULTING FROM LESSEE'S OPERATIONS OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS BY LESSEE. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, CONTRACTORS, AND ANY OTHER PERSON ACTING UNDER ITS DIRECTION AND CONTROL, AND ITS INDEPENDENT CONTRACTORS. LESSEE'S INDEMNITY OBLIGATIONS SURVIVE THE TERMINATION OF THIS LEASE.

15. Dispute Resolution. In the event of a dispute under this Lease, the parties agree to attempt to resolve the dispute through good faith mediation to be held in Tarrant County, Texas.

16. Miscellaneous Provisions.

(a) In the event this Lease expires for any reason as to all or any part of the Land, Lessee shall, within 60 days thereafter, furnish Lessor with a written, recordable release covering all of the Land or that portion of the Land to be released.

(b) Nothing in this Lease negates the usual implied covenants imposed upon Lessee.

(c) Lessee will conduct all operations hereunder in compliance with the rules of the Railroad Commission of Texas and federal and state environmental laws and regulations. Lessee will give Lessor at least ten days prior notice in writing before conducting seismic operation on the Land.

(d) The terms "production" and "producing" mean production and producing in paying quantities. No obligation of Lessee to pay money under this Lease will be excused or

delayed by reason of Force Majeure. Lessee's obligations to pay money under this Lease are to be performed in Tarrant County, Texas. Paragraph headings are used in this Lease for convenience only and are not to be considered in the interpretation or construction of this Lease. The execution or ratification by Lessor of any division order, gas contract, or any other document will not alter any provision of this Lease unless the intent to do so is expressly stated in the document.

(e) This Lease is binding upon and for the benefit of Lessor, Lessee, and their respective heirs, personal representatives, successors, and assigns.

Executed on the date first written above.

LESSOR:

Jagdip Patel

By:____________________
Signature

Print: JAGDIP PATEL

Title:____________________

STATE OF TEXAS

COUNTY OF TARRANT

This instrument was acknowledged before me on October 28, 2008 by Jagdip Patel.

W. T. SKIP LEAKE
Notary Public, State of Texas
My Commission Expires
February 26, 2010

Notary Public, State of Texas

EXHIBIT "A"

Being 3.0118 acres of land, more or less, and being a tract of land out of the JAMES ROGERS SURVEY, Abstract No. 1264, Tarrant County, Texas, being a portion of TRACT NO. 18 described in the deed to John R. Sullivan recorded in Volume 10162, Page 221 of the Tarrant County Deed Records, and also described in a certain Mineral Deed, dated January 10th, 2008, from FW West Hotel, LP, a Texas Limited Partnership, to Jagdip Patel and Viran Nana, each as to an undivided one-half (1/2) interest, and recorded as Instrument No. D208016075, Deed Records, Tarrant County, Texas, and amendments thereof, including streets, easements and alleyways adjacent thereto, and any riparian rights, and being more particularly described by metes and bounds as follows:

BEGINNING at a point said point being the northeast corner of said TRACT NO. 18 and the northwest corner of Lot 1 in Block 1 of City View Addition, as said Lot appears upon Plat recorded in volume 388-194, page 11 of the said Map Records and being the south line of the right-of-way for Interstate Highway No. 20 / 820;

THENCE: S 8'23'30" W along the east line of said TRACT NO. 18 and the west line of Lot 1, a distance of 327.84 feet to a point for corner;

THENCE: North 89 degrees - 09 minutes - 38 seconds West, a distance of 402.38 feet to a point for corner in the easterly right of way line of Overton Ridge Boulevard and being a point in a non-tangent curve to the left with a chord of 286.82 feet bearing N 6'47'36" E and having a radius of 1854.77 feet;

THENCE: along said curve to the left for a arch length of 269.60 feet to a point at the end of a curve;
THENCE: North 2'28'48" E with said easterly right of way of Overton Ridge Boulevard for a distance of 8.38 feet to a point at the beginning of a curve to the right with a chord of 54.13 feet bearing N 25'21'40" E and a radius of 70.00 feet;

THENCE: along said curve to the right for a arc length of 55.58 feet to a point for corner in the said south right of way line of Interstate Highway No. 20 / 820 and the north line of said TRACT NO. 18;

THENCE: S 89'09'38" E, along sold south right of way line of Interstate Highway No. 20 / 820 and the north line of said TRACT NO. 18 for distance of 394.88 feet to the PLACE OF BEGINNING and containing 131,194.0674 square feet or 3.0118 acres of land.

ADDENDUM

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED OCTOBER 28, 2008, BETWEEN JAGDIP PATEL AS LESSOR, AND VARGAS ENERGY, LTD., LESSEE, COVERING 3.0118 ACRES OF LAND, MORE OR LESS, ALL OF LOT 1, BLOCK A OF THE CITYVIEW ADDITION, AN ADDITION TO THE CITY OF FORT WORTH, TARRANT COUNTY, TEXAS. THE PROVISIONS OF THIS EXHIBIT SUPERSEDE ANY PROVISIONS TO THE CONTRARY CONTAINED IN THE LEASE TO WHICH EXHIBIT IS ATTACHED.

Notwithstanding anything in this Lease to the contrary:

1. Minerals Leased. This lease is limited to oil, gas and other hydrocarbons and substances normally associated with the production of oil and gas, but this lease does not include gravel, uranium, fissionable materials, coal, lignite or any hard minerals or substances of any type which shall be produced from the leased premises. Lessee shall not use ground water in its operations whether under the leased premises or adjacent lands.

2. Surface Waiver. Notwithstanding anything herein to the contrary, Lessee shall not use the surface of all or any portion of the leased premises, whether under the Lease or otherwise, including, without limitation, use of the surface of the leased premises to explore, drill or mine for, produce, store, process, market and transport any oil, gas or other minerals conduct seismic or ingress and egress without the prior written consent of Lessor (which consent can by withheld in Lessor's sole discretion). This waiver shall not be considered as a waiver, release or relinquishment by Lessee of any right, title or interest of Lessee in the oil and gas on or under, or that may be produced from the leased premises or an portion thereof (whether under the Lease or otherwise), except as to the surface use rights incident thereto for which consent to use is not given by Lessor as provided above.

3. Paying Quantities. As used in this Lease, the term "paying quantities" means revenue from the sale of production from a well sufficient to return a profit, after deduction of royalties, overriding royalties and production taxes, over and above all direct operating costs, but not including capital costs or district office overhead not directly attributable to the leased premises, for any consecutive twelve (12) month period.

4. Royalties. The royalties to be paid by Lessee on gas, including casinghead gas or other gaseous substances produced from the leased premises or sold or used on or off the leased premises or for the extraction of gasoline or other products therefrom, shall be 25% of the market value at the point of sale (not at the wellhead) of gas or other gaseous substances so sold or used; however, in no event shall the royalty paid to Lessor be less than the Lessor's royalty share of the actual amount realized by the Lessee from the sale of oil and/or gas. "Market value" means the highest price obtainable by Lessee in the same or nearest field for gas or other substances of the same character, quantity and quality from an arms-length competitively negotiated contract. Lessor's royalty shall be

calculated free and clear of all costs and expenses of drilling, completing and operating the wells and post production costs, including, but not limited to, costs for storing, gathering, compression, treatment, processing, transportation, dehydration, marketing, construction, operation or depreciation of any improvements such as pipelines, plant or other facilities. All such post production costs shall be added back to determine the amount realized by Lessee in the sale of oil and gas for purposes of calculating Lessor's royalty; provided however Lessor's royalty shall be subject proportionately to any post production costs under Lessee's gas purchase contract with non-affiliated third party covering the sale of production from the leased premises. Lessor's royalty shall bear its proportionate share of ad valorem taxes and production severance, or other excise taxes. Royalties on oil, gas and other substances produced and saved hereunder which are processed in a processing plant in which Lessee, or an affiliate of Lessee, has a direct or indirect interest, shall be calculated based upon the higher of the proceeds received or the market value of the products so processed. Similarly, on oil, gas and other substances produced and saved hereunder which are sold to an affiliate of Lessee, royalties shall be paid based upon the higher of the market value of the gas or products so sold and the proceeds received by Lessee for said products. As used herein, the term "affiliate" means (i) a corporation, joint venture, partnership, or other entity that owns more than 10% of the outstanding voting interest of Lessee or in which Lessee owns more than 10% of the outstanding voting interest; or (ii) a corporation, joint venture, partnership, or other entity in which, together with Lessee, more than 10% of the outstanding voting interest of both the Lessee and the other corporation, joint venture, partnership, or other entity is owned or controlled by the same person, or group of persons. Annual shut-in royalty will be $100.00 per well. After the expiration of the primary term, Lessee shall not have the right to continue this Lease in force by payment of shut-in royalty for more than one single period of two years or three years in the aggregate of shut-in periods during a five year period

5. Shut In: If there is a gas well on this Lease capable of producing in paying quantities, but gas is not being sold for a period of 60 consecutive days, Lessee shall pay or tender in advance $100.00 per well annual royalty from each well from which gas is not being sold. After the expiration of the primary term, the right of Lessee to maintain this Lease in force by payment of shut-in gas royalty is limited to no more than two (2) consecutive years and a cumulative (3) three years within any ten (10) year period.

6. Pooling / Unitization. All of the leased premises will be included in one or more pooled units prior to the end of the primary term, and failure to do so will cause termination of this Lease. The entire leased premises must thus be producing in paying quantities or deemed to be producing in paying quantities by virtue of payment of shut-in royalties in order to extend the term of this Lease. Lessee's right to pool under this Lease shall be limited to a unit or units no larger than three hundred twenty (320) acres plus the acreage permitted by the "Additional Acreage Assignment" based upon "Horizontal Drainhole Displacement" for Horizontal Wells as provided in Texas Railroad Commission Statewide Rule 86. In the event the Railroad Commission of Texas (or other governmental authority having jurisdiction) requires, as opposed to permits, larger

units in order to obtain the maximum production allowable, then the foregoing unit limitations may be enlarged only to the extent to obtain such full allocation.

7. Acreage Retained. This Lease shall continue in force and effect after the primary term or any extension of such primary term as permitted by continuous drilling operations being conducted at the end of the primary term as allowed in this Lease, only as to: (i) that portion of the leased premises actually included at that time in a producing oil or gas unit, if Lessee is not required to pool or unitize all of the leased premises under the terms of this Lease, and (ii) all rights lying below one hundred (100) feet below either (1) the deepest depth drilled in any well drilled on the leased premises or on lands pooled therewith, or (2) the stratigraphic equivalent of the base of the deepest formation producing or capable of producing in any well drilled on the leased premises or on lands pooled therewith, whichever is the deepest. This Lease shall terminate by its terms as to all portions of the leased premises and depths not actually included in such producing unit or units.

8. No Warranty. This lease is made by Lessor without express or implied warranty or covenant of title. All warranties which might arise by common law or by statute, including but not limited to § 5.023 of the Texas Property Code (or its successor) are excluded.

9. Indemnity. **TO THE MAXIMUM EXTENT PERMITTED BY LAW, LESSEE WILL INDEMNIFY, DEFEND AND HOLD LESSOR HARMLESS FROM ANY AND ALL CLAIMS, LIABILITIES, DEMANDS, SUITS, LOSSES, DAMAGES AND COSTS (INCLUDING WITHOUT LIMITATION ANY ATTORNEY FEES) CAUSED BY LESSEE'S OR ITS CONTRACTOR'S OR SUBCONTRACTOR'S ACTIVITIES INCLUDING, WITHOUT LIMITATION, ANY CLAIMS THAT LESSE'S OPERATIONS THEREUNDER ARE EITHER ILLEGAL, UNAUTHORIZED OR CONSTITUTE AN IMPROPER INTERFERENCE WITH ANY THIRD PARTIES' RIGHTS, OR HAVE DAMAGED THE LANDS OR OPERATIONS OF ADJACENT LANDOWNERS. THIS INDEMNITY SHALL NOT BE APPLICABLE TO DAMAGES RESULTING FROM LESSOR'S NEGLIGENCE OR WILLFUL MISCONDUCT.** Lessee, at its own expense, shall maintain a general liability insurance policy (covering both bodily injury and property damage and covering its indemnity obligations under this paragraph, for which Lessor shall be carried as additional insureds) in an amount of at least $5,000,000 combined single limit. Lessee shall also, at its own expense, carry worker's compensation insurance as required by law. Said policies shall (i) name Lessor as additional insureds (except for the worker's compensation policy, which instead shall include a waiver of subrogation endorsement in favor of Lessor), and (ii) provide that said insurance shall not be canceled unless thirty (30) days prior written notice shall have been given to Lessor. In addition, such insurance provided by Lessee shall be primary coverage for Lessor and/or surface owner when any policy issued to Lessor and/or surface owner is similar or duplicate in coverage, and Lessor's policies shall be excess over Lessee's policies.

10. Offset Wells. If the nearest bottom-hole producing perforations in a well capable of producing oil or gas or other hydrocarbons in paying quantities should now exist or hereafter be completed within 330 feet of the leased premises, or within such greater distances as may be established by a Regulatory Body as a part of a drilling or spacing pattern for the field, then, within one hundred and eighty (180) days after such well shall has been completed, (but subject to paragraph 12 hereof), Lessee shall either commence operations for and thereafter diligently prosecute the drilling of an offset well at a permitted location which is reasonably designed to protect the leased premises from drainage or release and surrender all of Lessee's rights hereunder unless the leased premises has already been designated as part of a producing well unit.